THE POTENTIAL FOR WORK AMONG WELFARE PARENTS

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PREFACE

This monograph is one of a series of publications that summarize dissertations prepared under the Doctoral Dissertation Grants Program of the Manpower Administration.

That program was established under the 1965 amendments to the Manpower Development and Training Act of 1962, which authorized the Department of Labor to give grants for the support of manpower research. As an incentive for scholars in the behavioral sciences to specialize in the manpower field, this program supports doctoral candidates writing their dissertations on manpower topics. Through May 1969, more than 140 doctoral candidates had been given support, and 39 had completed and submitted their dissertations.

This publication deals with one of these dissertations, which was singled out because the research findings are significant for manpower programs or policies. Similar presentations of other dissertations will be published from time to time, and periodically brief summaries of dissertations will be issued. The full texts of all these dissertations may be purchased from the Clearinghouse for Federal Scientific and Technical Information. (See p. 29 for a list of those now available and directions for ordering them.)

The author of the dissertation that is the subject of this publication—Dr. Leonard J. Hausman, who is now assistant professor of economics at North Carolina State University—also wrote this monograph.

The program which generated this monograph, as well as the dissertation study, is administered for the Manpower Administration by the Office of Manpower Research of the Office of Policy, Evaluation and Research.

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INTRODUCTION

When the Congress directed the Secretary of Labor, in the 1967 amendments to the Social Security Act, to establish work incentive programs for recipients of Aid to Families with Dependent Children (AFDC), it specified the goal of ". . . restoring the families of such individuals to independence and useful roles in their communities." This goal was to be accomplished by providing jobs or skill training, with monetary incentives and supportive services, to able-bodied recipients of AFDC who are aged 16 or over, not full-time students, and not needed at home to care for another member of the household.[1]

Since the Work Incentive Program (WIN) was not initiated until mid-1968, and some related amendments did not become effective until July 1, 1969, it is still too early to judge its success in achieving the objectives set for it. However, a recently completed study sponsored by the U.S. Department of Labor [2] sheds some light on the magnitude of the task that confronts the Department in following the directive to ". . . develop an employability plan for each suitable person referred . . . which shall describe the education, training, work experience, and orientation which it is determined that each such person needs to complete in order to enable him to become self-supporting."

Results of the study suggest that, although more AFDC family heads than might be supposed are either currently employable or can easily be rehabilitated to become employable, comparatively few are—or can easily be made—capable of earning enough to support their families at the levels of income they can attain on welfare. Moreover, the findings indicate that building financial incentives to work into the system through the use of "earnings exemptions" like those specified in the act raises the level of earnings and income that a recipient may reach before the family needs to leave the welfare rolls. Thus, given the limited commitment of resources to this program,[3] it seems reasonable to expect that a very large number of AFDC families will continue to be at least partially dependent on welfare in the foreseeable future.

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[1] The AFDC program (including the so-called AFDC-UP program for the children of unemployed parents in 22 States) was making payments in mid-1968 to 1,397,000 families (*Welfare in Review*, November-December 1968, p. 41).

Very few AFDC families contain an able-bodied adult male. A 1967 AFDC study found that only 17.1 percent of these families were headed by fathers living in the home, and 70 percent of these fathers were classified as incapacitated. Hence able-bodied unemployed fathers were found in only 5.1 percent of the families. See *Preliminary Report of Findings—1967 AFDC Study* (Washington: U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, National Center for Social Statistics, October 1968), NCSS Report AFDC–1 (67), p. 9.

[2] *The 100% Welfare Tax Rate: Its Incidence and Effects*, by Leonard J. Hausman. Dr. Hausman's study was conducted at the University of Wisconsin under the Doctoral Dissertation Grant Program of the U.S. Department of Labor's Manpower Administration.

[3] From the time the program was initiated in mid-1968 through the end of fiscal year 1969, the Department of Labor expected to enroll about 100,000 welfare recipients in 48 States and four other jurisdictions, at a cost of $114.5 million. Under the law, the training and work-experience portion of the program must be designed so that the average period of enrollment "under all projects under such program throughout any area of the United States" will not exceed 1 year. In the special work projects that are to be set up for individuals for whom a job in the regular economy cannot be found, each individual's record is to be reviewed at least once every 6 months to determine whether it would be feasible to place him in a regular job or in a training and work-experience project.

THE "EARNINGS TAX" ON WELFARE RECIPIENTS

In the following discussion of the work effort of AFDC recipients, the term "welfare tax rate" is used to denote the rate at which assistance benefits to a family decline as its earned (and other) income increases. This usage conceives the assistance payments from the government to a family as a type of negative tax payment—in contrast to the customary positive tax payments made by a family to the government. The effect of a reduction in assistance benefits is, in theory, similar to the effect of an increase in positive tax payments: the higher the tax rate in either case, the less it pays an individual—in the short run—to engage in added work. Before the earnings exemption provision of the 1967 amendments took effect, a family's assistance payments typically amounted to the difference between the dollar value of its "needs" and its nonassistance income. Some significant exceptions will be discussed later, but, in the main, recipients experienced a dollar-for-dollar reduction in their benefits when they obtained jobs and earned money. Thus their earnings were taxed at a 100-percent rate. It would be surprising if some recipients did not reduce their work effort accordingly.

To allege that the work effort of AFDC recipients may have been reduced in response to the 100-percent welfare tax rate is to raise a socially and politically delicate issue. Thus, a few points of clarification are in order.

1. Saying that the job search and work effort of an AFDC family head are reduced in response to the high welfare tax rate does not necessarily imply that the tax rate is a major determinant of the size of the AFDC caseload or that reducing the tax rate will shrink the caseload—even if it does induce expanded work effort. Other influences on the size of the caseload include changes in rules and conditions of eligibility for assistance; changes in general administrative policy on the allowable size of the caseload; the degree of activity and effectiveness of welfare recipients' organizations; the rate of migration of families from jurisdictions with lower benefits to ones with higher benefits; and probably such factors as cyclical and seasonal variations in the unemployment rate, particularly among certain demographic groups.

The welfare tax rate, per se, may have affected the AFDC caseload in two ways in the past. First, insofar as it discouraged part-time and irregular work, it may have reduced the probability of some recipients' eventually obtaining full-time work and thus prolonged their stay on AFDC rolls. Second, the tax rate may sometimes have induced "rational" recipients to choose welfare over work because, in view of the time often involved in reestablishing eligibility for assistance, the rate frequently exceeded 100 percent. If, for example, an AFDC mother who had received $200 in monthly payments left the AFDC program because she found a job that netted her $250 per month but lost the job after 1 month, she might have to wait another month before she received assistance again. In this case, her total income for the 2 months would be $250, compared to the $400 she would have received if she had never taken the job. Thus for every dollar this mother earned, she lost $1.60. However, as is indicated subsequently, most AFDC family heads were not in a position to earn amounts in excess of their payments; hence the welfare tax rate may have influenced the combination of work and welfare they chose, but not whether they were on or off welfare.

2. *If* welfare recipients are found to be making a less-than-maximum work effort, the answer to the problem does not necessarily lie in

reducing the *level* of assistance payments. The level of payments is now typically below the accepted poverty lines, especially for large families. The work effort of recipients may be sensitive to the welfare tax rate, as well as to the level of payments. It may be entirely possible to induce a near-maximum work effort by tampering only with the welfare tax rate and other factors, without jeopardizing the well-being of truly unemployable recipients.

3. Nevertheless, a high welfare tax rate is not the only, nor necessarily the most significant, impediment to maximum feasible work effort on the part of recipients. Clearly, jobs which the recipients are capable of holding must be available. Some recipients need to be trained and otherwise rehabilitated to become employable, and AFDC mothers need child-care facilities for their children—needs recognized in the 1967 amendments. Caseworkers need to cooperate in allowing AFDC mothers to opt for work. As vital as any other need is a guarantee of stable income for recipients; in other words, the effective welfare tax rate cannot be allowed to exceed 100 percent; for welfare recipients, like executives, probably are not interested in earning $1 to lose $1.60.

In sum, if maximum work effort by recipients is the desired objective of welfare policy, changes in conditions that influence recipients' work behavior will need to extend beyond those contemplated in the 1967 amendments.

POTENTIAL FOR SELF-SUPPORT

How many AFDC and AFDC-UP families are capable of earning as much as they could receive on welfare? Ideally, to answer this question we would like to have data on both potential on-assistance and potential off-assistance income. As usual, compromises must be made in choosing data to represent the desired income figures. The chosen data and their limitations are described fully in the appendix. Briefly, they are as follows:

For the AFDC group, the potential on-assistance income data are in fact "monthly family money living requirements" for 1961, the latest data for this measure of the cost of the goods and services needed by the family to maintain a specified level of living. This statistic varies from State to State if not from case to case. (Living requirements should not be confused with actual on-assistance income, which is lower; see the appendix for explanation.) For the AFDC-UP group, the potential on-assistance income data are "monthly family money assistance payments" to California AFDC-UP families in 1965.

For both groups of families, the potential off-assistance income data are derived from census data on the earnings of members of the civilian labor force who are most similar in skills to the heads of the AFDC and AFDC-UP families. Specifically, the census earnings data relate to persons of the same sex and educational attainment who reported any earnings in 1959 in the previous occupation group of the AFDC and AFDC-UP family heads.[4]

The basic data for potential on- and off-assistance income are shown in the first and second banks of figures in tables 1 and 2. The third bank of figures in each table presents estimates of the percentage of AFDC family heads who would, if employed in their previous occupation, probably earn less than their potential on-assistance income. It appears that, given the conservative assumptions made in developing these figures, at least two-thirds of the AFDC mothers and one-third of the AFDC-UP fathers could not, in the mid-1960's, have supported their families at the levels of income they could attain on welfare.

The method used in making the estimates, which is explained fully in the appendix, assumes that if welfare recipients were to become employed, they would fall randomly into the earnings distribution for labor force members of similar occupation-education status. However, the presence of these persons on welfare may imply a lower earning capacity than that of similar persons in the labor force. If so, the recipients would be heavily concentrated in the lower end of each earnings distribution. Other data from the 1961 study of welfare recipients lend some support to this interpretation; for example, although nearly 16 percent of the AFDC mothers who were in the home were employed, either full or part time, they were still receiving welfare payments at the time of the study.[5] Thus the estimated proportions of recipients who could not, at that time, have supported their families by working appear to be on the conservative side.

Since these data were compiled, disparate increases in average AFDC benefit levels and earnings imply that these estimates are an even more conservative measure of AFDC beneficiaries' *current* capacity to earn as much as

[4] These data, rather than those for workers employed 50 to 52 weeks during the year, were chosen as being more realistic, since welfare recipients can be expected to experience at least the average amount of involuntary unemployment.

[5] *Study of Recipients of Aid to Families With Dependent Children, November-December 1961: National Cross-Tabulations* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, August 1965).

TABLE 1. AFDC MOTHERS WHO COULD NOT MATCH THEIR FAMILIES' ON-ASSISTANCE INCOME BY WORKING, BY FORMER OCCUPATION AND EDUCATION

[Percent distribution]

On-assistance income or earnings [1]	Total	Clerical, sales, and kindred workers, grade 12 [2]	Operatives and kindred workers, grades 9 to 11	Private household workers, grades 0 to 7	Service workers excluding private household, grade 8	Farm laborers, grades 0 to 7	Nonfarm laborers, grades 9 to 11
AFDC family on-assistance income [3]							
Under $1,000	6.4	0.7	0.6	1.7	1.8	0.5	1.1
$1,000 to $1,999	45.7	4.9	4.5	12.4	12.5	3.7	7.6
$2,000 to $2,999	34.8	3.7	3.4	9.4	9.5	2.9	5.8
$3,000 to $3,999	10.4	1.1	1.0	2.8	2.8	.9	1.7
$4,000 to $4,999	2.7	.3	.3	.7	.7	.2	.4
Total	100.0	10.7	9.9	27.1	27.4	8.2	16.6
Earnings of female civilian labor force, by occupation							
Under $1,000	------------	12.8	18.6	75.5	34.0	88.0	36.7
$1,000 to $1,999	------------	13.9	22.0	18.6	32.8	8.9	18.2
$2,000 to $2,999	------------	21.7	29.2	4.8	20.6	2.1	20.8
$3,000 to $3,999	------------	28.2	18.8	.7	8.7	.7	13.0
$4,000 to $4,999	------------	16.2	8.5	.1	2.5	.1	8.5
$5,000 and over	------------	7.2	2.8	.2	1.3	.2	2.7
Total	------------	100.0	100.0	100.0	100.0	100.0	100.0
Median earnings	------------	$3,054	$2,320	$662	$1,486	$568	$1,727
AFDC mothers whose earnings would not exceed on-assistance income [4]							
Under $1,000	1.5	------------	0.1	0.7	0.3	0.2	0.2
$1,000 to $1,999	26.1	1.0	1.3	10.5	6.3	3.5	3.5
$2,000 to $2,999	26.4	1.4	1.9	9.1	7.4	2.8	3.8
$3,000 to $3,999	9.1	.7	.8	2.8	2.6	.8	1.4
$4,000 to $4,999	2.4	.2	.2	.7	.7	.2	.4
Total	65.5	3.3	4.3	23.8	17.3	7.5	9.3

[1] Whereas the earnings data are available on an annual basis, the assistance data are available only on a monthly basis and have been converted to annual data.

[2] The grade levels to which the census earnings data relate include or coincide with the average years of schooling of AFDC mothers in these occupations in 1961. Roughly 1.9 percent of the AFDC mothers were, after distributing those who were either never employed or of unknown occupational class among the other classes, categorized as professionals or managers. Also, in the AFDC occupational data, women who were either clerical or sales workers were combined in one class. For these three groups of AFDC mothers, the earnings data are for clerical workers; however, earnings of clerical workers are substantially higher than those of sales workers.

[3] As is explained in the appendix, the data are actually for the variable "living requirements" and not for "on-assistance income."

The derivation of the distribution in columns 2 through 7 is described in the appendix. The implicit assumption here is that the mothers in each occupational group are distributed similarly among the living requirements intervals.

[4] See appendix for explanation of method of computation.

NOTE: Detail may not add to totals because of rounding.

SOURCES: Assistance income data—*Study of Recipients of Aid to Families With Dependent Children, November–December 1961: National Cross-Tabulations* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, August 1965), tables 25 and 31 and related unpublished material. Earnings data—*1960 Census of Population, Occupational Characteristics* (Washington: U.S. Department of Commerce, Bureau of the Census, 1963), Final Report PC(2)–7A, table 32.

Table 2. AFDC-UP Fathers Who Could Not Match Their Families' On-Assistance Income by Working, by Former Occupation and Education

[Percent distribution]

On-assistance income or earnings [1]	Total	Craftsmen and kindred workers, grades 9 to 11 [2]	Operatives and kindred workers, grades 9 to 11	Service workers including private household, grade 8	Farm laborers, grade 8	Nonfarm laborers, grades 0 to 7
AFDC-UP family on-assistance income [3]						
Under $1,000	6.4	0.6	1.8	0.3	0.2	3.4
$1,000 to $1,999	23.9	2.3	6.8	1.3	.8	12.8
$2,000 to $2,999	35.3	3.5	10.0	1.9	1.1	18.8
$3,000 to $3,999	23.0	2.3	6.5	1.2	.7	12.3
$4,000 to $4,999	11.4	1.1	3.2	.6	.4	6.1
Total	100.0	9.8	28.3	5.3	3.2	53.4
Earnings of male (age 25 to 64) civilian labor force, by occupation						
Under $1,000	------------	2.1	2.9	7.1	25.2	15.7
$1,000 to $1,999	------------	3.2	4.5	10.3	25.2	17.2
$2,000 to $2,999	------------	5.7	8.8	17.9	23.5	20.6
$3,000 to $3,999	------------	10.7	15.0	23.4	15.1	18.7
$4,000 to $4,999	------------	16.6	21.0	20.4	6.7	15.5
$5,000 and over	------------	61.7	47.9	20.9	4.2	12.1
Total	------------	100.0	100.0	100.0	100.0	100.0
Median earnings	------------	$5,530	$4,900	$3,624	$1,986	$2,830
AFDC-UP fathers whose earnings would not exceed on-assistance income [4]						
Under $1,000	------------	------------	------------	------------	------------	0.3
$1,000 to $1,999	4.0	0.1	0.3	0.2	0.3	3.1
$2,000 to $2,999	10.8	.3	1.2	.5	.7	8.1
$3,000 to $3,999	10.8	.4	1.5	.6	.6	7.7
$4,000 to $4,999	7.2	.3	1.3	.4	.3	4.9
Total	33.1	1.1	4.3	1.7	1.9	24.1

[1] Whereas the earnings data are available on an annual basis, the assistance data are available only on a monthly basis and have been converted to annual data.

[2] The grade levels to which the census earnings data relate include or coincide with the average years of schooling of AFDC-UP fathers in these occupations in 1961.

About 4 percent of the AFDC-UP fathers had never been employed on a full-time basis or were of unknown occupational class. These fathers were distributed among the other classes. The resulting figures for professional, managerial, clerical, and sales workers, and farm renters or managers (3.9 percent in all) were combined with the 5.9 percent who were craftsmen and kindred workers. The earnings data used for this group were for craftsmen, foremen, and kindred workers.

[3] As is explained in the appendix, the data are actually for the variable "assistance payments" and not for "on-assistance income." The derivation of the distribution in columns 2 through 6 is described in the appendix. The implicit assumption here is that the fathers in each occupational group are distributed similarly among the assistance payments intervals.

[4] See appendix for explanation of method of computation.

Note: Detail may not add to totals because of rounding.

Sources: Assistance income data—Unpublished material from the California Department of Social Welfare on the AFDC-UP caseload for April, July, and November 1965, Sacramento, January 1966. Earnings data—*1960 Census of Population, Occupation by Earnings and Education* (Washington: U.S. Department of Commerce, Bureau of the Census, 1963), Final Report PC(2)-7B, table 1.

their potential on-assistance income.[6] The monthly assistance payment per family rose from $122 to $162 between the end of 1961 and the end of 1967—an average increase of about 5½ percent a year.[7] The proportion of AFDC families receiving money benefits of $200 or more a month more than doubled between 1961 and 1967, from 12.6 percent to 28.7 percent.[8] These increases reflect primarily a larger growth in the caseload in higher benefit States than in lower benefit States, although benefit levels also rose somewhat in nearly all States. Nearly 400,000 families were added to the AFDC rolls between the end of 1961 and the end of 1967, and New York, where average benefits are by far the highest in the country, accounted for nearly three-eighths of the increase.[9] New York was the only State, in fact, where the average monthly benefit for a family exceeded the earnings for full-time work at the prevailing minimum wage, then $1.40 an hour.

Comparable occupational earnings data by education level are not available to measure the increase that has occurred since 1959—the reference date of the earnings data in tables 1 and 2. Average weekly earnings in the private sector rose 29 percent, or an average of 3.7 percent a year, between 1959 and 1967. This average increase was only two-thirds of that for welfare payments. In the occupations that accounted for most of the AFDC recipients, median income (including money from sources other than wages and salaries) for women who worked during the year was as follows in 1959 and 1967:

Occupation group	*1959*	*1967*	*Percent increase, 1959–67*
Clerical and kindred workers	$3,061	$3,844	25.6
Operatives and kindred workers	2,358	3,218	36.5
Private household workers	643	765	19.0
Service workers, excluding private household	1,431	2,076	45.1
Farm laborers and foremen	(1)	586	—
Laborers, excluding farm and mine	(1)	2,628	—

[1] Median not shown where base is less than 100,000.

SOURCE: *Current Population Reports*, Series P–60, Nos. 35 and 60 (Washington: U.S. Bureau of the Census, 1961 and 1969).

The average increase for the four occupations for which there are data for both years, weighted by the occupational distribution of the AFDC mothers, is 31.8 percent, or just under 4 percent a year.

Although the higher growth rate in AFDC payments in large part reflects the expansion of AFDC rolls in higher benefit States, the markedly lower growth rates in earnings and income suggest that it would be even more difficult now than in the earlier period for welfare recipients to earn as much as they could receive from all sources while on welfare. In any case, the preceding figures illustrate a basic point: welfare recipients by and large are incapable of being self-sufficient at their attainable welfare income levels.

[6] In the following discussion of changes in wage and benefit payments, data for 1967 are used in all cases because that is the most recent year for which certain series are available.

[7] *Statistical Abstract of the United States* (Washington: U.S. Department of Commerce, Bureau of the Census, 1963), p. 299, and *Welfare in Review*, November-December 1968, p. 41.

Cash payments are lower than potential on-assistance income, which, in turn, is lower than the "living requirements" figures used in tables 1 and 2, as explained in the appendix. Current data are available only for cash payments, but it is probably true that potential on-assistance income has risen at a comparable rate.

[8] *Preliminary Report of Findings—1967 AFDC Study* (Washington: U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, National Center for Social Statistics, October 1968), table 18.

[9] See footnote 7.

EMPLOYABILITY OF AFDC FAMILY HEADS

Given the probable inability of most AFDC family heads to meet the minimum income needs of their families by working at jobs in which they have some experience, there is still a question of how much work effort on their part can reasonably be expected. How many can work if some of the obstacles that now keep them out of the labor market can be removed?

Welfare departments generally define employability by reference to the absence of handicapping characteristics, such as physical or mental illness or the presence of young children; the possession of certain attributes, such as recent work experience or skills; and the state of the economy.

The City of Detroit Department of Public Welfare states: "Relief claimants are considered employable if they pass a physical examination and are not needed at home for the proper care of the members of the family unit." [10]

The Cook County (Ill.) Department of Public Aid identifies as "potentially employable" those AFDC mothers who were employed for 3 or more months within the 5 preceding years and who had no physical limitations, and notes that employability is also a function of the individual's "economic milieu" and of personal characteristics.[11]

The New York State Department of Social Welfare uses two criteria: (1) A welfare recipient is deemed unavailable for employment if he is "attending day school on a full-time basis," or is an "adult with household responsibilities," "incapacitated," or a "person with acute illness." (2) He is regarded as employable if, "in the judgment of the caseworker, [he is] designated as placeable based upon [his] skills and personal characteristics . . . as well as employment opportunities in the community." [12]

Such definitions may provide simple ways of dividing the AFDC caseload between those who "ought" and "ought not" to be in the labor force. However, they do not permit distinctions within the former category between those who could be hired at a market wage only if they acquired more skills or were rehabilitated and those whose employment hinges on such nonpersonal factors as increasing aggregate demand and day-care facilities, or reducing the welfare tax rate and racial discrimination. For this purpose, a better definition might be: An employable individual is one who, at a very high level of aggregate demand, has a high probability of finding one or more hours per week of suitable work at some market wage.

Under this definition, recipients who require immediate rehabilitation and training would be classified as unemployable. Those who require day-care facilities, available jobs, or greater financial inducements to expand their work effort would be classed as employable. Being employable does not imply that a recipient ought to be able to earn enough to be financially independent at a reasonable income. Thus, even employable recipients who "ought" to work may merit upgrading and further rehabilitation.

The practical effect of the difference between this defintion and those commonly used by welfare departments on the interpretation of "employability" is demonstrated in a comparison of survey results.

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[10] Edward D. Wickersham, *Detroit's Insured Unemployed and Employable Welfare Recipients: Their Characteristics, Labor Market Experience, and Attitudes* (Kalamazoo, Mich.: The W. E. Upjohn Institute for Employment Research, April 1963), p. 8.

[11] Deton J. Brooks and others, *A Study to Determine the Employment Potential of Mothers Receiving Aid to Dependent Children Assistance* (Chicago: Cook County Department of Public Aid, June 1964), p. 88.

[12] New York State Department of Social Welfare, Forms RS–121 (6/65) for "Quarterly Statistical Report on Employability Status," published in the department's *Social Statistics.*

Welfare Department Studies

The only employability data for AFDC-UP recipients come from California and New York State, which now account for more than half of all AFDC-UP cases. In July 1965, half of all AFDC-UP fathers in California were judged to be employable; men were considered unemployable if they were "older than age 50, illiterate," or had "acute or permanent physical or mental handicap." In September 1965, close to three-fifths of all AFDC-UP fathers in New York State were deemed employable, since they were both "available for employment" and "placeable." The data are weak in some respects. Surely some 51-year-old, illiterate men could hold part-time jobs, but no doubt some literate AFDC-UP fathers under 50 are not employable unless they can acquire new skills. The New York State data were gathered when the unemployment rate in that State exceeded 4.5 percent.[13] A crucial unanswered question is, how many of them would have been "placeable" at a 3-percent or 3.5-percent unemployment rate?

Nevertheless, the welfare department data indicate that a large proportion of AFDC-UP fathers are not to be thought of as being excluded from the labor market. Other types of data support this contention. In California, roughly 360 per 1,000 active AFDC-UP cases were closed between January 1, 1965, and June 30, 1965, because of the increased earnings of the AFDC-UP father. For the national AFDC-UP caseload, data for 3 months between December 1964 and February 1966 yield a similar rate of "cases closed because of earnings."

That welfare departments may encounter difficulties in discovering disguised employables because the welfare tax rate is 100 percent or more is well illustrated by the case of an incapacitated father who was receiving Aid to Needy Children (ANC, now AFDC) in California.

> . . . Mr. P., aged 46, has a wife and eight children, ranging from 3 to 13 years. Until 1951 he had a good work record, mostly in laboring jobs. His last job, as a pavement smoother, brought in a weekly wage of $70. Arthritis of the hip forced him to quit work. He received treatment at the county hospital, and the family received aid to needy children [ANC].
>
> Because of his disability, age, work record, attitudes, and level of intelligence, the type of work he can do is very limited. A caseworker at the Bureau of Vocational Rehabilitation counseled Mr. P. and developed a sedentary job for him on the assembly line of an electric products company.
>
> The dilemma which this case presents is that, once Mr. P. has proven his ability to work, the family will be removed from the ANC rolls. The ANC payment has amounted to $305 a month for the family of 10. On his new job, Mr. P. cannot hope to net more than $210 per month. Under the law, ANC cannot supplement his income since such supplementation is permissible only for a woman recipient, nor is it probable that general relief will be granted to supplement earnings.
>
> The Bureau of Vocational Rehabilitation was concerned about this case on medical grounds and pointed out to the State Department of Social Welfare:
>
>> There is no question in our minds that, as soon as these facts of life are brought home to him, he is going to develop subjective complaints which will make it impossible to continue on the job on which he is placed. Furthermore, none of us really believes that 10 people can even eat satisfactorily on $210 a month let alone maintain a decent standard of living.
>
> Cases like this one present a very real problem, and they are a significant factor in limiting rehabilitation work. The Bureau of Vocational Rehabilitation suggested to the Department that motivation toward rehabilitation could be provided by supplementing wages after treatment, where the parent's earnings have in any way been affected by his disability.[14]

This illustration is not used to imply that further investments in the skills and health of welfare recipients are either unnecessary or undesirable; nor does it suggest that further efforts are not needed to raise the level of demand and thus open more opportunities to these individuals. It does imply that a larger proportion of AFDC-UP fathers, and perhaps even of "incapacitated" AFDC fathers, are employable than welfare data show, and that this employability may be revealed by changing nonpersonal factors such as the welfare tax rate.

How many AFDC mothers are employable, under the kind of criteria conventionally used by welfare departments? One or two careful studies are available to help answer this question.

In the 1965 survey of its AFDC caseload, the

[13] *Manpower Report of the President* (Washington: U.S. Department of Labor, April 1968), p. 282.

[14] Margaret Greenfield, *Self-Support in Aid to Dependent Children* (Berkeley, Calif.: Bureau of Public Administration of the University of California, February 1956), pp. 94–95.

California Department of Social Welfare counted as "probably unemployable" those mothers who were either "older than age 50, illiterate, [limited by] any acute or permanent physical or mental handicap, or [by] more than 6 children." Using these criteria, 62.6 percent of the mothers were considered to be "probably unemployable." Of the remaining 37.4 percent, over half were considered by their caseworkers to be "needed in home as full-time homemakers." Thus only 17 percent of the California AFDC mothers were either employed or considered fully available for employment.

In New York State, the percentage of AFDC mothers who were either employed or employable, according to the criteria noted earlier, came to roughly 7 percent. If the determination of employability had not included a judgment as to how "placeable" a welfare client is, the 7-percent figure might have been a couple of percentage points higher.

From a random sample of 278 mothers in the AFDC caseload in early 1962, the Cook County Department of Public Aid selected as "potentially employable women" those who had 3 or more months of work experience within the previous 5 years and who were not handicapped by visible physical limitations. Not counting six women who were employed, 82, or 29.5 percent of the total sample, were found who satisfied both criteria. However, the imposition of a third criterion of no preschool-aged children reduced the employed and employable mothers to roughly 8 percent of the total sample. Yet some women who had been absent from the labor market for the past 5 years may no longer have been inhibited or handicapped by personal factors which necessitated previous inactivity; surely many young mothers return to the labor market after long inactivity. Also, some of the women who had preschool-aged children indicated that they could obtain cost-free child care if they began to work or retrain. They may well have revealed limited employability if they believed the net wages they could earn would make employment profitable for them. The researchers made no effort to speculate about the actual market behavior of these women at full employment.

A nationwide study of AFDC mothers classed as having "no marketable skills" those "not needed as homemakers, who are unemployed because they have no work training or experience and whose potential for employment is poor, regardless of the conditions of the labor market." (See table 3.) The employable women, according to the criteria used by the Bureau of Family Services of the U.S. Department of Health, Education, and Welfare (HEW), included those employed, either part time or full time, and those classified under "suitable employment not available," that is, women who met the conventional definition of the term "unemployed." Nationally then, roughly 22 percent of all AFDC mothers were either employed or considered employable in 1961.

TABLE 3. EMPLOYMENT STATUS OF AFDC MOTHERS[1] IN THE HOME, LATE 1961

Employment status	Number	Percent
Mother not employed:		
Needed in the home as full-time homemaker	411,300	55.3
No marketable skills	52,300	7.0
Suitable employment not available	43,500	5.9
Physically or mentally not able	85,600	11.5
None of the above factors apply	34,000	4.6
Mother employed full time	41,300	15.7
Mother employed part time	75,200	
Total	743,200	100.0

[1] Roughly 45,000 of the 743,200 mothers are in AFDC-UP families. Since those families are usually quite large—they average close to four children per family—most of the 45,000 mothers would be needed in the home. Thus the proportions of employable and unemployable mothers in the AFDC families only would be somewhat different.

SOURCE: *Study of Recipients of Aid to Families With Dependent Children, November-December 1961: National Cross-Tabulations* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, August 1965), table 23.

An Independent Survey of AFDC Mothers

A different picture of the extent of employability among AFDC mothers emerges from a small survey conducted for this study in New York during the late summer and early fall of 1966. An attempt was also made to determine what impact changes in the welfare tax rate would have on their employability. For this purpose, survey results are, of course, not as desirable or reliable as observations of actual labor market behavior. Employability involves consideration of both the demand for and the supply of an individual's labor, and only an experiment with a variety of net wage rates and with ample day-care facilities would permit strong statements about the mothers in the sample. But the survey data do contribute some tentative conclusions on the employability of AFDC mothers.

If an AFDC mother is capable of increased work effort, and if the welfare department is able to determine such a capability, her eligibility for assistance may be jeopardized. Such a woman might well be reluctant to answer questions pertaining to her employability for anyone whom she suspects of being affiliated with the welfare department.

Consequently, for this survey, the researchers enlisted the aid of the local chapter of a national organization that is organizing welfare recipients to represent them in dealings with local assistance agencies. This organization not only supplied four interviewers and gave the interviewers letters of introduction to the respondents, but also allowed the study directors to be introduced and questioned at one of its meetings and spread the word that the study directors were in no way connected with the New York City Department of Welfare. Nevertheless, some respondents—who clearly indicated to the interviewers that they believed the welfare department was resorting to more subtle means of investigation—undoubtedly were unwilling to answer questions freely and honestly. In sum, the survey estimates of the employability of AFDC mothers—while far above those based on investigations by the local welfare department—are probably below estimates that would be derived from absolutely free and honest answers to the same questions.

Although the small sample was not designed to represent any population larger than that of the area surveyed, a number of characteristics of the heavily Negro sample were remarkably similar to those of Negro AFDC mothers in the major cities of the Nation. The two groups were closely matched as to educational attainment level, employment and labor force status, and occupational distribution, as well as ages of the mothers and children, number of children per family, and proportion of families with children of preschool age.

The most important characteristic on which there was a substantial divergence between the two groups was "length of time on AFDC since most recent opening of case." This divergence may be due to shortcomings in data collection for the smaller study, or relaxed eligibility requirements and higher benefits levels in some States may have resulted in increased long-time dependency since 1961, when the national study was made. If the divergence on this characteristic is merely a data problem, then the study group closely resembles Negro AFDC mothers in other major cities. If welfare dependency has in fact risen, then the conclusions on the extent of employability among the respondents and on the possible impact of reduced welfare tax rates on employability would seem to hold, a fortiori, for some larger group of AFDC mothers. Generalizations from data yielded by the small sample should, however, be made with great caution and skepticism.

Potential Response to Changes in Welfare Tax Rate. The responses of the 131 AFDC mothers interviewed indicated that many of them may be "disguised employables" and that their work effort may be influenced by the welfare tax rate. Again, though, under the most liberal assumptions made about their skills and the state of the labor market, they were overwhelmingly incapable of self-support.

Under the assumptions and definitions conventionally employed by welfare departments, a large majority of them would be classed as unemployable. If the employable category is limited to those mothers who are presently in the labor force, 16.8 percent is the relevant figure. (See table 4.) If the employable category is expanded to encompass those mothers who claim they are now able to work, the pro-

TABLE 4. EMPLOYABILITY OF 131 MOTHERS IN NEW YORK SURVEY, BY DIFFERENT CRITERIA

Definition of employability[1]	Percent employable
Mothers who—	
Are employed or looking for work	16.8
Are employed or claim ability to work, and have available child care	22.9
Have no health problems	25.2
Have no children under 6	35.9
Have free child care available	10.7
Had job within past 5 years	18.3
Indicate job interest and possession of skills	27.5
Appear employable in general evaluation of responses	38.9

[1] The categories are not mutually exclusive.

portion reaches 22.9 percent.

Most of the mothers, 65 percent, claimed to be unemployed or not in the labor force because they were unable to find suitable child care or because they were not physically well. A few, 5 percent, stated that their skills were inadequate, while others boldly replied that they did not like to work, that they preferred to be on welfare, or that mothers on AFDC were not supposed to work (10 percent).[15] When asked why she was unable to work, one woman said, "Because I worked before and I know what it's like working 8 hours a day." Another explained, "If I get off welfare, I couldn't make enough to support my family." Still another responded, "If the pay was good for a decent job, I would take one for sure. But the jobs they [the welfare department] expect us to take aren't good. They don't pay enough and you're never sure how long you're going to be working." A woman, who later volunteered that she had recently completed one sales job at which she worked for 18 successive months and, just prior to that, one at which she worked for 8 months told the interviewer, "I'm not good at working. Just can't seem to hold a job. You know, I can't work with my hands too well and my education is limited."

When employability was defined as having recent employment experience and no health problems or preschool-aged children—roughly the criteria applied in the Chicago study—the proportion of employable mothers in the New York study was slightly higher than the Chicago figure: 10.7 percent compared with about 8 percent. However, just under 25 percent of the mothers in the sample indicated that if they had to work and got a job next week, they would be able either to find nonpublic, cost-free child care or to work while their children were in school.[16]

A series of questions was designed to probe the effect of the welfare tax rate on the mothers' revealed employability. Just over 37 percent of the 131 women replied affirmatively to the first question: "Have you ever felt that it didn't pay you to work?" Over 80 percent of this group—or more than 30 percent of the entire sample—either explained that expenses incurred in working, including child-care expenses, made employment financially senseless, or, implicitly noting that the high tax rates on their benefits restricted their choice of work or welfare, explained that they were financially better off on welfare. Of the 17 women who complained about employment-related expenses, one said: "Right now it really doesn't pay for me to work unless I get a decent salary. After all, when you work you have to have lunch, dress nice, spend money for carfare, and those things cost a lot of money. By the time you're through with all the expenses there's hardly nothin' left." One of the 25 women who chose welfare on economic grounds explained her reasoning this way: "Because I would make less

[15] The distribution of these mothers by their reason for not working is very similar to that of the Chicago AFDC mothers. In the Chicago sample, roughly 76 percent of the entire sample explained their nonemployment similarly. Most of the difference between the two figures is probably traceable to the fact that the Chicago study was conducted by the welfare department and thus the AFDC mothers were less prone to explain their behavior frankly.

[16] In discussions with the AFDC mothers who were the leaders of the welfare recipients' organization that aided the study, one got the impression that a larger proportion of mothers could obtain cost-free child care on a part-time basis—if it paid for the mothers to work. They spoke as if they were quite sure of this fact and claimed that outsiders were not aware of the potential informal child-care resources available to AFDC mothers. It should be noted, though, that the respondents were quizzed on what they would do if they *had* to work; some may have answered differently if the question had implied that the women had a greater degree of choice over their work behavior. Thus, it is hard to judge the probable direction of the error in this estimate. In the Chicago study, a number of the mothers indicated that they had cost-free child care available to them, if they were to be retrained or to find work. What is clear is that by no means all women with young children are prevented, for that reason, from working.

working than what I get from welfare. If I worked, I'd get about $50 a week. When on welfare, I get $62 a week."

The questions that followed were:

1. Do you think, if the Welfare Department let other AFDC mothers keep most of what they earned and didn't budget their earnings, that this would influence or do anything to the amount of work they did every week?
   a. Why do you think so?
      or
   b. Why don't you think so?
2. A few months ago the New York City Welfare Department decided to allow AFDC mothers to keep $40 of what they earned every month; they no longer budget that amount of money or deduct it from the assistance check.
   a. Did you know about this new rule before I told you about it?
   b. What do you think of it?
   c. Do you think this will influence the amount of work that people do?

To question 1, about 72 percent responded affirmatively; and one-sixth of the remaining women explained their "no" or "not sure" answers in a manner that indicated they would have responded affirmatively if they had understood the question. Roughly 15 percent said that they and/or others would respond to a large earnings exemption by going to work; roughly 30 percent found the prospects of an added income attractive; and another 15 percent indicated that working would no longer be futile. For example:

> —"I know if I could work and not be afraid of getting caught while I'm getting my check, I'd work."

> —"If I could work, I know I'd find something, if that meant I could still collect from the welfare department."

> —"Because that way they won't feel that their working is futile. Why work when they're gonna take it from you?"

> —"Some women or most women need that money real bad and being on welfare wouldn't be so bad if a woman could work and keep her dignity."

Most mothers were not aware of the (then) new earnings exemption rule in New York City, and just over half thought it was a good idea. Only 36 percent, however, indicated that this kind of earnings exemption would motivate mothers to seek work and another 27 percent were unsure of its effects. It was quite clear that the women thought of the $40 per month as their earnings for a month of full-time work; thus for many, the implied low net wage rate meant that work would still not be a financially sensible alternative to "full-time leisure." The proportion who thought that mothers would be sensitive to a "low" net wage rate was about half of the proportion who thought that mothers would work at a "high" net wage rate. Many of the responses to question 2 offer interesting contrasts with those to question 1:

> —"Personally, I wouldn't go to work for $40 a month unless I was working one hour a day."

> —"Well, I have six kids and in a way the extra $40 would come in handy, but I couldn't see going to work every day for that."

> —"Well, personally, I wouldn't go to work for that; but looking at it broadmindedly, I'd imagine many mothers would take advantage, but I doubt if they'd all report their incomes to the welfare department."

The responses to this series of questions show that less than one-fourth of the mothers believed that a lower welfare tax rate would not induce greater work effort. About one-third felt that any moderate or reasonable earnings exemption or any reasonable change in their potential net wage rates would motivate mothers to work. Another two-fifths felt that only a substantial change from the status quo would be effective in motivating AFDC mothers to greater work effort.

Overall Estimates of Employability. From the results of this series of questions and other data obtained in the interviews, it appears that 27.5 percent of the mothers were either working or were interested in jobs and had marketable skills. Those who were not working were regarded as likely to look for a job—provided lower welfare tax rates were to bring their net wage into line with their market wage. This

proportion rises to 38.9 percent if the term "employable" is redefined to exclude only those clearly uninterested in working under any circumstances, obviously without marketable skills, or definitely prevented from working because of poor health or a large number of children. Another 14.5 percent of the 131 mothers were marginal or questionable cases, given the available data. Thus, less than half could be considered clearly unemployable under the simple definition proposed earlier in this section.

The survey responses suggest that, given favorable welfare tax rates, more AFDC mothers are employable than is frequently believed. Of course, the women were not asked whether *they* would work under different net wage rates or if they personally would want to work at various net wage rates, so their responses may not predict their behavior under the stated conditions. Even if all of the mothers who implied that they or others would want to work actually would search for jobs, it is by no means certain that they could find employment at market wage rates, even at high levels of aggregate demand. In short, conclusions drawn about employability and work effort changes in response to changes in the welfare tax rate or net wage rates among these AFDC mothers from this survey must be highly tentative. The most reasonable conclusion from this small survey is that reduced welfare tax rates and increased child-care facilities will substantially increase labor force participation, if not employment, among these mothers.

THE 1967 PUBLIC ASSISTANCE AMENDMENTS

Several of the key public assistance amendments of 1967 were intended to increase the employability and work effort of adult AFDC recipients. Besides providing for the WIN Program, these amendments authorize earnings exemptions, emergency assistance, and Medicaid.

If these amendments are to be evaluated by their effects on increasing the employability of AFDC adults, there is some hope for success. If, however, the criterion is their short-term effect on holding down the growth in the AFDC rolls and the various financial and economic costs to the taxpayers associated with the AFDC program, or reducing public criticism of the welfare program, the amendments may well fall short of the mark. Since they were not fully implemented until July 1969, predictions about their effects must be recognized as being partly speculative.

Earnings Exemptions

One significant amendment reduced the welfare tax rate or, to use the welfare jargon, allowed for the exemption of recipients' earnings in the determination of their assistance payments. Conventionally, recipients had their earnings taxed implicitly according to one of three different rate structures. Most recipients lived in States where assistance payments were reduced one dollar each time their earnings increased a dollar; in effect, the tax rate on their earnings was a constant 100 percent up to the maximum amount they could receive in welfare payments if they had no other income. A significant minority of recipients lived in States, typically southern ones, where the welfare departments did not pay 100 percent of the defined minimum monthly living requirements but did not penalize recipients for any earnings or other income that did not exceed the difference between their actual welfare payment and their minimum requirements. Thus they faced a zero welfare tax rate on some (variable) amount of monthly earnings, but a 100-percent rate above that amount. A very small minority of recipients—in States like Mississippi and Alabama—received assistance payments that were some percentage of their requirements after deductions for earnings and other income. For example, if requirements were $200 and monthly earnings were $100, the family's AFDC payment was 27 percent of the $100 difference; that is, earnings and other income were implicitly taxed at a uniform 27 percent rate.

In 1962 Congress permitted the States to consider job-related expenses in determining a recipient's requirements and to exempt certain saved earnings from consideration. The 1965 welfare amendments exempted the first $50 a month of an AFDC child's earnings or the first $150 of the combined earnings of three or more children in one family. The Economic Opportunity Act of 1964 provided that recipients in poverty programs could earn $85 a month at a zero tax rate, the next $85 at a 50-percent rate, and other earnings at a 100-percent rate. The new welfare tax structure provides that AFDC youth who are in school can earn any amount with no loss of welfare payments; youth not in school and other members of AFDC families incur no tax on the first $30 of their pooled monthly earnings, but lose $2 of every $3 they earn above that amount.[17]

[17] The new earnings exemptions often would not apply to AFDC-UP families under the Social and Rehabilitation Service policy that an AFDC-UP family is not eligible for assistance if the father is employed on a full-time basis. In view of this, much of the discussion of earnings exemptions does not apply to the AFDC-UP caseload.

People favored a reduction in the welfare tax rate for different reasons. Some looked upon it as a practical way of allowing recipients to raise their incomes, in view of the unwillingness of State and local governments to raise payments significantly. Some thought that the exemptions would protect employed recipients in States where they were cut off welfare—even when their earnings were below the level of their maximum payment or monthly living requirement. Others saw it as a helpful tool for enticing recipients into training programs and the job market. And still others thought that many recipients would now be motivated to earn their way off welfare. At present the information available is insufficient to permit accurate predictions about whether the last two objectives will be attained.

Two experiments with reduced tax rates have yielded inconclusive results.[18] In both, a number of recipients seemed motivated to raise their incomes and obtain jobs, but few were able to leave welfare. Although measures of the impact of the tax cut yielded statistically insignificant differences between the experimental and control groups, the results pointed in the expected and desired direction. The value of the experiments was reduced because the tax cut was especially small in one case, financial incentives were provided to the groups that were supposed to serve as controls, caseworkers did not appear fully committed to the success of the experiments, and local unemployment was high at the time. Nevertheless, these experiments indicate some difficulties that will be encountered under the new tax rate revisions.

The difficulties in attaining self-support arise in part from the inescapable arithmetic of income maintenance programs: Raising the minimum payment in the absence of other income, to be humane, or reducing the tax rates on earnings, to provide work incentives, raises the level of income at which recipients must leave the welfare rolls. For example, an AFDC mother who now receives $2,500 a year in assistance payments can, under the tax rate provided for in the new law, take a job and still receive some welfare payments until her earnings reach $4,110—her new break-even level of income.

To illustrate the problem, 10 States that make payments equal to 100 percent of family need in the absence of other income were chosen to indicate the break-even levels of income under the old and new welfare tax rates and the hourly wage equivalents of those break-even income levels. For example, an AFDC mother of three children in North Carolina would have had to earn more than $1,773 in 1967 to exceed her assistance requirements and thus forfeit all assistance. (See table 5.) Until she reached that level, she would have lost $1 of assistance payments for every $1 she earned. Under the new earnings exemption or welfare tax rates, she can earn more than $3,020 before she is removed from welfare—unless, of course, she irrationally chooses to leave welfare sooner. (See table 6.) Should she earn just $1,773—the amount that formerly would have cost her all benefits—she could also receive $831 in assistance payments. Surely some women in that State can work 2,000 hours per year and earn more than $.89 per hour (for a total of $1,773) but cannot earn more than $1.51 per hour (or $3,020); or can work only 1,500 hours per year and net more than $1.18 but not more than $2.01 per hour. In New Jersey, a mother of four children could work 2,000 hours per year at more than $3.14 per hour before she would be denied all welfare benefits.

Since the earnings exemptions, or the new welfare tax rates, are now uniform in all States, the percentage increases in break-even income levels are largest in the low wage and low AFDC payment States. In States which have denied all welfare benefits to recipients with relatively low earnings, enforcement of the new rates enables these persons to remain on the rolls. In many other States where AFDC family heads have been earning their way off welfare, these recipients now often have the option of receiving partial benefits. Many recipients placed on jobs under the WIN Program may also remain eligible for partial benefits.

For some families, however, the new rates represent a tax increase rather than a tax cut and reduce the incentive to work and the break-even level of income. Such families are ones with members who received larger exemptions while participating in antipoverty programs

[18] These experiments are described in *The Incentive Budgeting Demonstration Project* (Denver: Department of Welfare, December 1961), and "Employment Incentives and Social Services: A Demonstration Program in Public Welfare" (Cleveland: Cuyahoga County Welfare Department, 1966), first draft.

TABLE 5. APPROXIMATE ANNUAL ASSISTANCE REQUIREMENTS AND HOURLY WAGE EQUIVALENTS OF REQUIREMENTS FOR AFDC AND AFDC-UP UNITS IN SELECTED STATES

State	AFDC and AFDC-UP unit size [1]											
	Three persons			Four persons			Five persons			Six persons		
	Annual assistance requirements [2]	Hourly wage equivalents		Annual assistance requirements [2]	Hourly wage equivalents		Annual assistance requirements [2]	Hourly wage equivalents		Annual assistance requirements [2]	Hourly wage equivalents	
		2,000 hours worked	1,500 hours worked		2,000 hours worked	1,500 hours worked		2,000 hours worked	1,500 hours worked		2,000 hours worked	1,500 hours worked
Connecticut	$2,606	$1.30	$1.74	$3,084	$1.54	$2.06	$3,559	$1.78	$2.37	$3,997	$2.00	$2.66
Illinois	1,845	.92	1.23	2,173	1.09	1.45	2,569	1.28	1.71	2,952	1.48	1.97
Kansas	2,252	1.13	1.50	2,808	1.40	1.87	3,370	1.69	2.25	3,920	1.96	2.61
Maryland	1,613	.81	1.08	2,058	1.03	1.37	2,461	1.23	1.64	2,684	1.34	1.79
Montana	2,084	1.04	1.40	2,628	1.31	1.75	3,046	1.52	2.03	3,564	1.78	2.37
New Jersey	2,822	1.41	1.88	3,360	1.68	2.24	3,951	1.98	2.63	4,536	2.27	3.02
New York	2,693	1.35	1.80	3,146	1.57	2.10	3,731	1.87	2.49	4,263	2.13	2.84
North Carolina	1,537	.77	1.02	1,773	.89	1.18	2,003	1.00	1.34	2,190	1.10	1.46
Washington	2,158	1.08	1.44	2,512	1.26	1.67	2,927	1.46	1.95	3,271	1.64	2.18
Wisconsin	2,160	1.08	1.44	2,618	1.31	1.75	3,050	1.53	2.03	3,513	1.76	2.34

[1] Requirements vary by unit size and unit composition within each State. For example, an AFDC unit of five persons might include an incapacitated father, a mother, and three children; an unemployed father, a mother, and three children (an AFDC-UP case); or a mother and four children. The data for three-, five-, and six-person units were derived from 1961 data for four-person families by applying 1961 ratios for units of the given size. These ratios do not distinguish between units of the same size but different composition. However, the relationships probably differ little from units of one composition to another.

[2] Derived from data on the maximum monthly payments available to a family composed of father, mother, and two children, who had no nonassistance income. The data were transformed into annual data, and 1961 ratios were used to compute payments for families of other sizes. Use of maximum rather than average payments allows for increased payments for employment-related expenses when a member becomes employed. Available materials indicate that these allowances vary between $20 and $40 a month for expenses other than child care. Average payments include employment allowances for only that small proportion of recipients who are actually receiving them.

SOURCES: *Characteristics of Families Receiving Aid to Families with Dependent Children, November-December 1961,* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, April 1963): and *Old-Age Assistance and Aid to Families with Dependent Children: Tables on Percent of Basic Needs Met for Specified Types of Cases, January 1967* (Washington: U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, August 1967).

and possibly families in the States which allowed the retention of earnings equal to the difference between living requirements and maximum allowable payments.

On balance, the new welfare tax rates probably will increase the rate of growth in AFDC rolls. This, however, does *not* imply that they are undesirable; for they may simultaneously protect recipients from harsh welfare administrators, provide incentives to work, raise recipients' money incomes, and possibly reduce total payments made to the AFDC caseload.

Emergency Assistance

Two other provisions of the new law will probably induce greater work effort. One permits the States to grant federally subsidized emergency assistance to a poor family. The other permits a former recipient to return to welfare immediately if he loses his job involuntarily within 4 months after becoming employed and leaving welfare. When he finds a new job, he will be subject to the new welfare tax rates.[19] As was pointed out earlier, under the pre-1967 law, the welfare tax rate could exceed 100 percent because of the difficulty sometimes encountered in reestablishing eligibility for AFDC after losing a job. If the States use these new provisions to eliminate delay in returning to the welfare rolls, a recipient who feels that an available job might not be secure may be more willing to risk taking the job.

[19] The AFDC-UP father would, as noted in footnote 17, not be eligible for benefits if employed full time.

TABLE 6. APPROXIMATE ANNUAL BREAK-EVEN LEVELS OF ASSISTANCE, UNDER NEW WELFARE TAX RATES, AND HOURLY WAGE EQUIVALENTS OF BREAK-EVEN LEVELS FOR AFDC AND AFDC-UP UNITS IN SELECTED STATES

State	AFDC and AFDC-UP unit size[1]											
	Three persons			Four persons			Five persons			Six persons		
	Annual break-even levels of assistance[2]	Hourly wage equivalents		Annual break-even levels of assistance[2]	Hourly wage equivalents		Annual break-even levels of assistance[2]	Hourly wage equivalents		Annual break-even levels of assistance[2]	Hourly wage equivalents	
		2,000 hours worked	1,500 hours worked		2,000 hours worked	1,500 hours worked		2,000 hours worked	1,500 hours worked		2,000 hours worked	1,500 hours worked
Connecticut	$4,269	$2.13	$2.85	$4,986	$2.49	$3.32	$5,699	$2.85	$3.80	$6,356	$3.18	$4.24
Illinois	3,128	1.56	2.09	3,620	1.81	2.41	4,214	2.11	2.81	4,788	2.39	3.19
Kansas	3,738	1.87	2.49	4,572	2.29	3.05	5,415	2.71	3.61	6,240	3.12	4.16
Maryland	2,780	1.39	1.85	3,447	1.72	2.30	4,052	2.03	2.70	4,386	2.19	2.93
Montana	3,486	1.74	2.32	4,302	2.15	2.87	4,929	2.46	3.29	5,706	2.85	3.80
New Jersey	4,593	2.30	3.06	5,400	2.70	3.60	6,287	3.14	4.19	7,164	3.58	4.78
New York	4,400	2.20	2.93	5,079	2.54	3.39	5,957	2.98	3.97	6,755	3.38	4.50
North Carolina	2,666	1.33	1.78	3,020	1.51	2.01	3,365	1.68	2.24	3,645	1.82	2.43
Washington	3,597	1.80	2.40	4,128	2.06	2.75	4,750	2.38	3.17	5,267	2.63	3.51
Wisconsin	3,600	1.80	2.40	4,287	2.14	2.86	4,935	2.47	3.29	5,630	2.82	3.75

[1] See footnote 1, table 5.

[2] Break-even levels of assistance, under the welfare tax rates, are those at which assistance payments are reduced to zero as a consequence of the accrual of earnings or other income to the welfare unit. For further explanation, see the discussion of Earnings Exemptions in the text.

Medicaid

In the Medicaid amendments, the Congress intended to cut costs by putting a ceiling on the income a family could have and be defined by a State as "medically needy," that is, ineligible for cash assistance payments but eligible for Government-financed medical care in and out of hospitals. New York State, for example, had defined a family of four with after-tax income of $6,000 as medically needy. Now a State will be reimbursed only for medical expenses of families whose net income is no more than 133⅓ percent of what their welfare payments would be if they had no other income. Moreover, States are *required* to provide certain medical services to the categorically (financially) needy, but are merely *permitted* to provide the same services to the medically needy.

Contrary to congressional intent, the Medicaid amendment, in combination with the earnings exemption, creates inequities that could expand welfare rolls. Take two families of four headed by women in New Jersey. In family A, the mother earns nothing and receives $3,200 per year in assistance. In family B, the mother nets $4,500 per year from her steady secretarial job. If the WIN Program places the family A mother in a job that nets her only $3,360 per year, she still receives $1,200 in assistance, and her total money income is $4,560 per year. Family A now has a higher money income than B. Moreover, since A is still on welfare and since B's income exceeds 133⅓ percent of $3,200, A gets full Medicaid benefits and B gets none. The family B mother might discover that she would profit by deliberately reducing her earnings to increase her income.[20]

The Work Incentive Program

The Work Incentive Program established by the 1967 amendments is the most ambitious plan for rehabilitating and providing employment for welfare recipients in the history of

[20] The Social and Rehabilitation Service is establishing guidelines to carry out the statutory provision barring persons who leave their jobs "without good cause" from becoming eligible for assistance. This may, however, be a difficult matter to police.

the AFDC program. The U.S. Department of Health, Education, and Welfare and the U.S. Department of Labor share the responsibility for administering this program through State agencies.

HEW agencies select teenage and adult recipients who appear likely to benefit from some WIN Program component; provide physical and psychological rehabilitative services to those who do not meet the standards for immediate enrollment in the WIN Program; refer recipients to Labor Department agencies according to legislatively determined priorities; arrange for child-care services for children of AFDC mothers; and provide standard welfare services to persons enrolled in the WIN Program and their families, both during and after their involvement in the program.

Once a welfare recipient is referred by his local welfare department to a particular Labor Department agency, usually the local agency of the U.S. Training and Employment Service, responsibility for his rehabilitation and reentry into the labor market rests largely with the local manpower agency. Its staff decides whether a particular recipient is job ready, training ready, or neither. Each recipient is given an employability plan, which contains his program and expected achivements. He is then assigned to follow one of three basic routes to employment. The first is immediate entry into the labor market in a job or on-the-job training. According to interim guidelines for the program, recipients are supposed to be assigned to jobs that provide opportunity for upward mobility. The local manpower agency is to engage in job development and to encourage employers to tailor jobs to the needs of clients.

The second route involves work orientation, basic education, and skill training to prepare welfare recipients for jobs. Manpower agencies may either place recipients in an on-going training program or start their own. When a person becomes ready for a job, intensive efforts are made to develop one for him. Persons assigned to this route may receive a wide variety of supportive services, usually for not more than 1 year.

The third route is for recipients who are not ready for training or jobs. These persons are assigned to special work projects, where they do unskilled work for a public or nonprofit employer. A special rehabilitative element in this WIN component is that work project participants are paid a wage by their employer, who receives a substantial indirect rebate from the welfare department. The recipient's earnings either exceed his assistance payment or are supplemented by a welfare check, so that his participation is financially rewarding.

The WIN Program may well increase the employment rate and enhance the employability of AFDC recipients. If it is funded and administered properly, it may well reduce total assistance costs in the long run. But there is great doubt that the WIN Program can quickly or substantially reduce the rate of growth in the AFDC rolls. The data examined here suggest that most AFDC (if not AFDC-UP) recipients, even if they find jobs under the first component of the WIN Program, will be entitled to remain on the AFDC rolls and receive some benefits. Furthermore, given their present productive powers, the comparatively small amount of resources that can be invested in them under the WIN Program, the experience of recipients who previously received MDTA training, and

TABLE 7. POSTTRAINING EARNINGS OF PUBLIC ASSISTANCE TRAINEES WHO COMPLETED MDTA PROGRAMS, AUGUST 1962–OCTOBER 1964

[Percent distribution]

Straight-time average hourly earnings	Men	Women
$0.50 to $0.749	0.7	1.4
$0.75 to $1.149	5.0	16.4
$1.15 to $1.249	.4	8.1
$1.25 to $1.499	18.3	30.2
$1.50 to $1.749	17.6	19.7
$1.75 to $1.999	12.4	15.0
$2.00 to $2.499	22.4	8.1
$2.50 to $2.999	16.2	.8
$3.00 and over	7.0	.2
Total	100.0	100.0
Median earnings	$1.91	$1.45

NOTE: Detail may not add to totals because of rounding.

SOURCE: *Training of Public Assistance Recipients Under the MDTA* (Washington: U.S. Department of Labor, Manpower Administration, April 1966), Manpower Evaluation Report No. 6, p. 28.

their break-even levels of income, it is doubtful that a large proportion of AFDC recipients will become financially self-sufficient as a result of their rehabilitation under the WIN Program.

Data on the earnings of welfare recipients who completed MDTA programs through October 1964 offer a useful parallel because the investments to be made in WIN participants who are referred for training and other job preparation are not scheduled to be much greater than the investments made in the MDTA participants. Hence, the post-WIN earnings by newly employed recipients are not likely to far exceed the post-MDTA earnings shown in table 7 except insofar as they reflect rising wage levels since 1964. Even if they had found 1,500 or 2,000 hours of employment a year at wages some 20 percent above the pay they received in 1964, few of the MDTA participants—particularly the women—could have attained financial independence, defined as earnings at or above the new break-even levels of income for typical welfare families.

* * * * *

In terms of the immediate outlay of funds, it is expensive to remedy the deficiencies that prevent large numbers of poor people from supporting themselves and their families at levels of income that allow for decent living. Yet from the point of view of society, it is the cheapest and most beneficial thing to do.

Until the citizenry develops the will to make enormous investments in the poor to remove the handicaps society has placed on them, expectations that the poor can or should become regularly employed in high-paying jobs are not realistic. The author, the reader, and other self-supporting persons did not attain their positions unaided: most of them took advantage of enormous public investments in the institutions that educated and prepared them for the positions they hold.

While waiting for the public to develop the will to provide the help the poor really need, it may be reasonable to expect some welfare recipients to work at relatively low wage jobs and thus make a partial contribution to their financial support. The ideas offered in this monograph may be of value to those who fund and implement the programs provided for in the 1967 amendments.

APPENDIX

SOURCES AND LIMITATIONS OF DATA AND ESTIMATING TECHNIQUES

The precise question answered in the text is: What percentage of AFDC and AFDC-UP family heads could not have supported their families at the levels of income they could attain on welfare if they entered the labor force and fell randomly in the earnings distribution for persons of nominally similar occupation-education status?

The data in tables 1 and 2 on the living requirements or assistance payments of the welfare families, on the occupations and education of their family heads, and on the annual earnings of persons in the civilian labor force most similar to these heads were used to develop the estimates of the proportion of the parents who could not support their families. The living requirements or assistance payments data were used instead of on-assistance income data, and earnings data replaced potential off-assistance income data. The estimates were derived by a two-step procedure.

In the first bank of the tables, the data in the first column on the distribution of AFDC families by their annual living requirements and those in the bottom row on the occupations of the welfare family heads were used to develop the *hypothetical* frequency distribution of the different occupational groups by living requirements that fills the remaining part of the first bank. On the assumption that the families' living requirements and the heads' occupations were statistically independent, the distribution was developed by multiplying the frequencies in the first column by those in the bottom row of the first bank.

In the second bank, the distributions of women (for the AFDC estimates) and men (for the AFDC-UP estimates) in the civilian labor force by occupation-education and 1959 earnings appear.

In the third bank, the distribution was developed by multiplying the corresponding joint frequencies derived in the first bank by the corresponding *cumulative* frequencies (with adjustments described below), from the second bank. The procedure assumes that living requirements, occupations, and earnings within particular occupation-education groups were statistically independent variables. The resulting frequencies represent the proportion of AFDC mothers (or AFDC-UP fathers) who, given their occupations and their living requirements, could not expect to exceed their living requirements—or, really, their on-assistance incomes—by going to work and leaving welfare.

To illustrate this procedure, the following traces the derivation of the 6.3-percent figure for service workers in the third bank of table 1.

From the first bank, take the 12.5 percent of AFDC mothers who were service workers and who were in families that had annual living requirements of $1,000 to $1,999 per year (that is, the product of the 27.4 percent in the bottom row and the 45.7 percent in the first column).

From the second bank, take the 34.0 percent of all female service workers with an eighth-grade education who earned $999 or less per year and add to it the half of the 32.8 percent that falls below the mid-point of the $1,000-to-$1,999 earnings class. It seemed appropriate to use only half the frequency in this class because the cumulative frequencies to the top, rather than to the mid-point, of each earnings class could be used in computing the numbers in the third bank only if there was a perfect correla-

tion between on-assistance income and potential off-assistance earnings. If such a perfect correlation did not exist and if on-assistance incomes and potential earnings were statistically independent, then, for example, a mother in the $1,000-to-$1,999 on-assistance income class had, on the average, a 50-percent chance of landing above her on-assistance income in the $1,000-to-$1,999 earnings class. To account for this—and thus make the estimates conservative—each relative frequency in the second bank was multiplied by .5 before being added to the cumulated frequencies below that particular class. In this case, the result is 34.0 percent plus 16.4 percent, or a total of 50.4 percent.

Multiply the 12.5 percent figure from bank one by the 50.4 percent derived from bank two. The result is in the second row of the fourth column of bank three, which indicates that 6.3 percent of the AFDC mothers would not, if they went to work in a service occupation at earnings commensurate with their education and experience, be able to earn as much as their families needed by welfare standards.

Currency of the Data

For tables 1 and 2, 1959 earnings data were used in place of potential off-assistance income data, 1961 "living requirements" were substituted for on-assistance income data for AFDC cases, and 1965 assistance payments to California AFDC-UP cases were used instead of on-assistance income data for the national AFDC-UP caseload. At the time this publication went to press, these were the most recent data of their kind available. The only information so far available from the 1967 survey of AFDC recipients does not include data on the occupations of adult recipients or on living requirements. More recent data on occupational earnings by education level will not be available until information gathered during the 1970 census is published. As indicated in the text, however, it is believed that trends in earnings and welfare benefits subsequent to the reference periods for the data used here make the estimates derived from the earlier data a more conservative measure of the current inability of AFDC parents to attain their on-assistance income by working than estimates based on current data would be.

Earnings. The earnings data represent gross earnings, whereas recipients probably make their on-assistance versus off-assistance income comparisons on the basis of net earnings after social security taxes and employment-related expenses are deducted.[1] These expenses may be closely correlated with earnings. For mothers, because of the greater child-care, food preparation, and clothing expenses associated with employment, taxes and employment-related expenses were assumed to average 15 percent of gross earnings; for fathers, they were figured at 10 percent.

Aside from very small and irregular earnings of children, the off-assistance incomes of AFDC-UP families would be closely approximated by the net earnings of the AFDC-UP fathers, after taxes and expenses.[2] For AFDC mothers, however, social security benefits and paternal support payments were often important income sources. Available data suggested that income from these sources averaged roughly $250 per year for an AFDC family. Over 35 percent of this $250 figure, however, consisted of support payments, an unknown—but possibly large—part of which would not be available to the AFDC family if the welfare agency were not involved in securing it from the absent father. Thus, for the average women who could earn $2,500 per year, net earnings should be increased by perhaps 7 to 10 percent to approximate potential off-assistance income.

The net effect of these subtractions and additions, considered in the light of the increase in earnings (see text), suggests that the 1959 gross earnings data understate 1966-67 net potential off-assistance income by perhaps 18 to 20 percent.

Living Requirements. The various implicit tax structures, described for the three groups

[1] *The 100% Welfare Tax Rate: Its Incidence and Effects*, by Leonard J. Hausman, unpublished doctoral dissertation, University of Wisconsin, June 1967, pp. 104 ff.

[2] *Characteristics of Families Receiving Aid to Families with Dependent Children, November-December 1961* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, April 1963), table 48; and *Study of Recipients of Aid to Families With Dependent Children, November-December 1961: National Cross-Tabulations* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, August 1965).

of States in the text, resulted in the following relationship holding through mid-1969 for the entire AFDC group: mean living requirement > mean *potential* on-assistance income > mean *actual* on-assistance income > mean assistance payment. In 1961, the mean monthly living requirement was $165, the mean monthly *actual* on-assistance income was $148, and the mean monthly assistance payment was $119.[3] Given the relationship posited above, the mean potential on-assistance income in 1961 was between $148 and $165, or about $155 a month. This is under 10 percent less than the mean monthly requirement, which is used in table 1.

Reasonably current data are available only for assistance payments. Between December 1961 and December 1967, the mean assistance payment rose by about one-third, to $162. If it is assumed that the 1961 difference between mean potential on-assistance income and the mean assistance payment prevailed in 1967, the resulting potential on-assistance income would be about $198. If it is assumed that the relative differential was maintained, the potential income would be roughly $211. Hence, the 1961 living requirements data understate the desired 1967 measure of potential income by 20 to 28 percent—somewhat more than the understatement in earnings. The difference implies that the 1959 and 1961 data provide a conservative approximation of the 1967 AFDC situation.

The data that best approximated the potential on-assistance incomes of AFDC-UP families were those on the assistance payments to the California caseload in July 1965. California had over 20 percent of the national caseload at that time. National data in which AFDC-UP families are distributed by assistance requirements were available only for 1961; at that time California and other States were not in what was then an 8-month-old program. However, in July 1965, the average payment to an AFDC-UP family in California was $199.67, whereas for the national caseload it was $183.94.[4] Since the national figure included neither the actual part-time earnings and other income received by AFDC-UP families nor the potential untaxed earnings—which would be included in (national) potential on-assistance income—the use of the California payments data in place of national data on potential on-assistance income most likely represented no more than a slight overstatement of the desired figures as of 1965. By the end of 1967, however, expansion in the AFDC-UP program, particularly in high-benefit States, had raised the national average payment to within $1 of the 1967 California average, or 11 percent more than the 1965 average.[5] In sum, given the more rapid rise in AFDC payments than in average earnings in relevant occupational categories, the data used above provide a reasonable approximation of the 1967 AFDC situation.

Other Sources of Error in the Estimates

Factors that may have resulted in overestimates of the "true" percentages of family heads who could not match their assistance payments in tables 1 and 2 include:

1. To approximate the potential earnings of AFDC-UP fathers who were unskilled laborers, the earnings distribution of laborers with less than—rather than with—an eighth-grade education was used. The median earnings in 1959 were $2,830 for the former group and $3,760 for the latter.[6] Information on the educational attainment levels of AFDC-UP fathers supported the original choice;[7] however, it should be noted that use of the latter distribution would reduce the 33.1-percent sum in the last line of column one in table 2 by 7 or 8 percentage points.

2. Under-reporting of earnings by domestics may have influenced the estimates for AFDC mothers, as the reported median 1959 earnings for domestics of all educational levels was only $684.

Important compensating factors were:

1. Over 29 percent of the AFDC mothers and over 3 percent of the AFDC-UP fathers were

[3] Gerald Kahn and Ellen Perkins, "Families Receiving AFDC: What Do They Live On?" *Welfare in Review*, October 1964, pp. 6–15.

[4] *Welfare in Review*, October 1965, table 8.

[5] *Welfare in Review*, November-December 1967, p. 29.

[6] *1960 Census of Population, Occupation by Earnings and Education* (Washington: U.S. Department of Commerce, Bureau of the Census, 1963), Final Report PC(2)-7B.

[7] Robert H. Mugge, "Education and AFDC," *Welfare in Review*, January 1964, pp. 1–14.

never employed before they went on welfare.[8] They were distributed proportionately among the occupational categories before the calculations were made, whereas, no doubt, they should have been disproportionately assigned to the lowest skill groups. Also the occupational data were obtained for late 1961 for both groups. By 1967-68, given the improved economic conditions, it was likely that a higher proportion of persons receiving welfare were in lower skill groups than the share of those who were receiving it in 1961. Thus, on two counts, the occupational data may have lead to underestimates in the table.

2. Assistance recipients frequently receive income-in-kind in the form of medical and dental services, medicines, and food. These forms of income are often substantial—and unavailable to the nonwelfare poor. Data to permit inclusion of their dollar value in the on-assistance income figures did not exist. Further, recipients often receive a host of social services while on welfare. The cost and the value attached to them by the recipients could not be determined.

[8] *Study of Recipients of Aid to Families With Dependent Children, November-December 1961* (Washington: U.S. Department of Health, Education, and Welfare, Bureau of Family Services, August 1965), tables 25 and 31.

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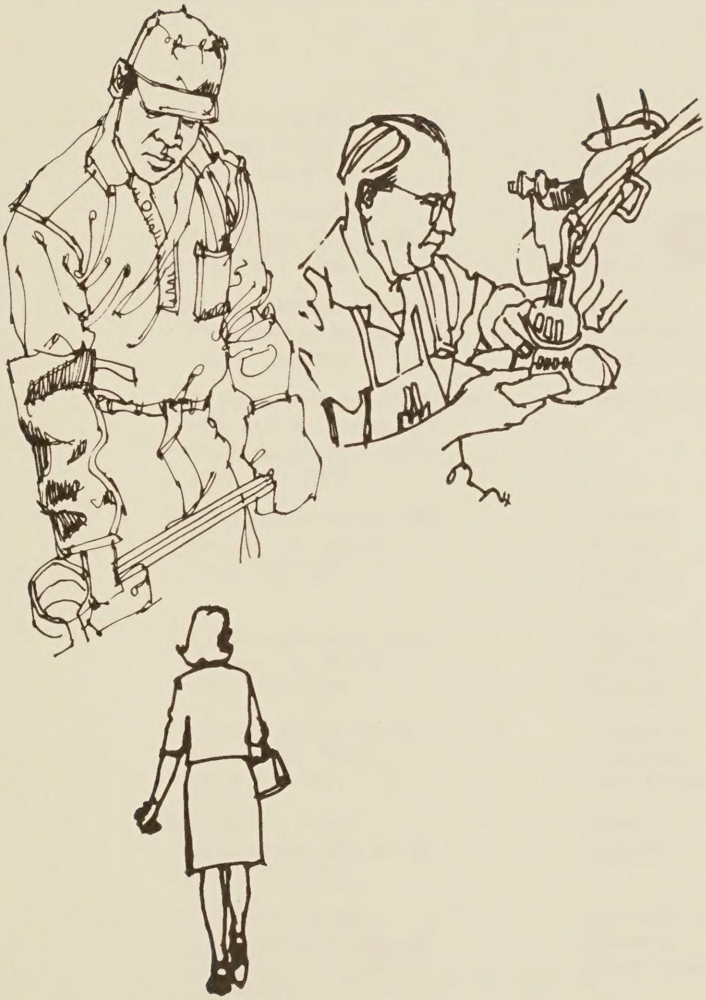

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